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Saving a Piece of the Rock: The State of Iowa and the Railroad Problem, 1972–1984

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Saving a Piece of the Rock: The State of Iowa and the Railroad Problem, 1972–1984

GREGORY L. SCHNEIDER

A TRIP ON THE ROCK ISLAND branch line near Iowa Falls in May 1975 dramatized the issues plaguing the newly bankrupt railroad. Near Rodman, steel track was stamped with the date 1904, much of it consisting of light 60-pound rail nearly three-quarters of a century old. Such track may have been suitable for the demands of shipping grain on branches through the 1950s, when most grain was hauled in boxcars, but the development of heavier jumbo hopper cars (which weighed 263,000 pounds when fully loaded) employed on branch lines by the 1970s necessitated regular maintenance and heavier rail. A train on the line averaged only ten miles per hour, “rocking and rolling” over uneven track. It was little wonder that derailments were common, slowing shipments of grain out of the rich farm fields and cooperative elevators in northwestern Iowa. The federal government had refused assistance to repair the track, leaving the state of Iowa to create an innovative program to do so. But worry about the survival of not only the railroad but of small farm communities led one shipper at Dows, Iowa, to state, “If you lose the railroad the elevator will go out of business and the town will die.”¹

The story of bad track and slow orders was not uncommon on railroads during the 1970s, for the entire American railroad

1. Dan Piller, “Trip Dramatizes Rock Island’s Woes,” *Des Moines Register*, 5/18/1975.

industry was in crisis. For well over a decade, railroads had suffered from decreased investment. Their rate of return on equity was a dismal 4 percent during the 1950s; it would sink further to about 2 percent in the 1970s.² Many railroads were becoming less and less able to attract private investment capital. As a consequence, railroad companies deferred maintenance on track, roadbed, structures, and equipment. During the 1960s, railroads had sought to abandon passenger trains at a record pace. When they were not permitted to do so, railroads provided such bad service on unprofitable trains that they drove away the few remaining passengers. By the time Amtrak was formed in 1971, railroad passengers had declined to about 4 percent of the traveling public from 29 percent a decade earlier. Railroads also saw their working capital decline precipitously, giving rise to the post-World War II "railroad problem," which Senator George Smathers (D-FL) diagnosed in Senate hearings in 1958: "A mighty industry has come upon sick and precarious times."³ A spate of bankruptcies in the Northeast, led by the Penn Central Transportation Company, forced the federal government to bail out the northeastern roads with the creation of Conrail in 1976. Yet no federal bailout was looming for troubled lines in the Midwest during the decade.

The major hindrance to railroad profitability during the post-World War II period was continued regulation of rates and service by the Interstate Commerce Commission (ICC). The ICC may have once been a necessity in the late nineteenth century in order to prevent abuses and restore order to an anarchic rate system in the railroad industry. By the 1950s, however, the railroads were no longer a monopoly; rather, they competed for traffic with trucks rolling on highways constructed by the government. Likewise, barges were delivering corn and grain to Gulf of Mexico ports on waterways dredged and maintained by the government, and airlines were stealing passenger traffic at government-subsidized airports, where airlines paid no taxes (unlike passenger

2. For the figure in 1970, see *The American Railroad Industry: A Prospectus* (Washington, DC, 1970), 4, generally known as the ASTRO Report, in Judith R. Hope Files (Domestic Council), box 42 (Union Pacific), Gerald R. Ford Presidential Library, Ann Arbor, MI.

3. *Ibid.*

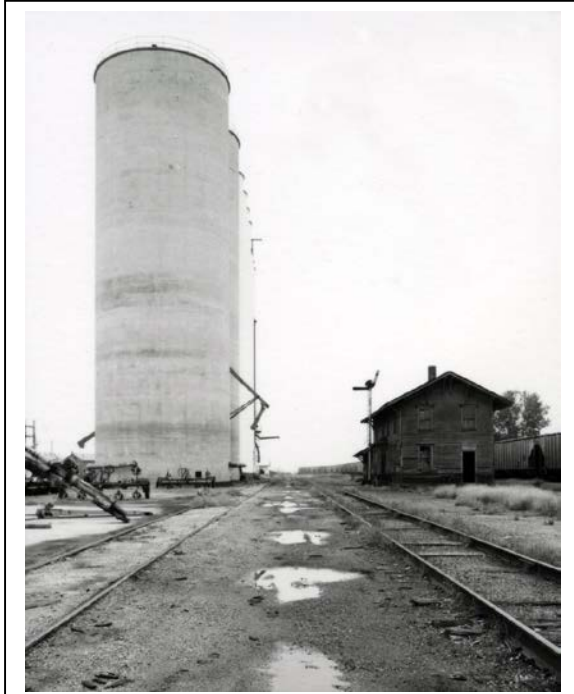
train depots, which were subject to property taxes). The automobile took passengers away from railroads on a federally funded highway system that put the final nail in the coffin of passenger trains. All of the changes necessitated some alteration of a regulatory structure that was impeding railroad profitability and the industry's ability to compete in delivering transportation services.⁴

No state was more symptomatic of "the railroad problem" in the United States during the 1970s than Iowa. In the peak years of railroad mileage in the early twentieth century, 10,500 miles of railroad crisscrossed the state; by 1974, that number had decreased to 6,500. The bankruptcies of the Chicago, Rock Island and Pacific Railroad (Rock Island) in 1975 and the Chicago, Milwaukee, St. Paul and Pacific Railroad (Milwaukee Road) in 1977 further reduced railroad lines to 3,400 miles. Today, the state possesses less than one-third of the railroad mileage it had at the dawn of the twentieth century.⁵ Even by the mid-twentieth century, Iowa's rail mileage, constructed during a time before trucks and highways linked agricultural shippers to the ports and urban areas of the nation, far exceeded its need. But by the 1970s, it was clear that much of Iowa's rail network was no longer needed, and abandonment of branch lines led many experts to fear that only a few major lines would remain in the state.

The bankruptcy and feared liquidation of the Penn Central helped spur proposed federal solutions to the railroad problem. Congress and the Nixon administration created the National Railroad Passenger Corporation (Amtrak) in 1971 to remove the burden of intercity passenger service from the private railroads. To rehabilitate the bankrupt northeastern lines, particularly the Penn Central, Congress passed the Regional Rail Reorganization (3R) Act in 1973, leading to the establishment of the U.S. Railroad

4. For a concise summary of the federal government's regulatory policies regarding railroads, airlines, and trucks, see Mark H. Rose, Bruce E. Seely, and Paul F. Barrett, *The Best Transportation System in the World: Railroads, Trucks, Airlines, and American Public Policy in the Twentieth Century* (Columbus, OH, 2006).

5. See Iowa Rail History at the Iowa Department of Transportation website: www.iowadot.gov/iowarail/history/history.htm (accessed 7/25/2012). The best history of Iowa railroads from the beginning to the 1990s is Don L. Hof-sommer, *Steel Trails of Hawkeyeland: Iowa's Railroad Experience* (Bloomington, IN, 2005).



Abandoned depot, Rockford, Iowa (September 1982), dwarfed by two adjoining elevators. Rockford once loomed large in eastern Iowa railroading. Between 1883 and 1913, the town was a division terminal with a roundhouse, coal chute, water station, and ice house. The two-story depot is all that remains today, but it has been preserved and restored on its original site by the Rockford Historical Society. All photos taken by and courtesy of James Beranek.

Administration (USRA). The USRA was given the task of developing a Final System Plan for the bankrupt eastern lines, which swelled to seven railroads by 1975. In early 1976 Gerald Ford signed the Railroad Revitalization and Regulatory Reform (4R) Act into law, implementing the recommendations of the USRA to create the Consolidated Rail Corporation (Conrail) and allowing for borrowing to rehabilitate railroads in the East and Midwest. Exactly where Iowa's place was in this developing nationalization

of rail lines was a prominent concern for state officials throughout the 1970s.⁶

How did Iowa policymakers respond to the railroad crisis in the state? How did they try to prevent the decline of the private rail network and work with railroads like the Rock Island to provide help to maintain service to dependent shippers in the state? Fearful of losing service on rail lines throughout the state, Iowa policymakers aided the Rock Island (and other railroads) in order to provide support for rehabilitating branch lines in the state. These efforts to “save a piece of the Rock” paid dividends for Iowa shippers after the venerable line was liquidated in the 1980s because a majority of the property in the state was saved for use by other railroads. The state’s efforts reveal a rare instance of government-business cooperation that helped preserve service in some areas and allowed for other companies to benefit once the Rock Island was gone.

THE EFFORT to save the railroad network in the state began over the issue of energy, particularly shortages of fertilizer and fuel because of the oil embargo by the Organization of the Petroleum Exporting Countries (OPEC) in the fall of 1973. “The combination of a wet corn crop and a late harvest in the fall of 1972 that first alerted Iowans to an energy shortage” led the Iowa General Assembly and the administration of Republican Governor Robert Ray to establish the Iowa Energy Policy Council “to plan and to coordinate Iowa’s energy efforts.”⁷ The council, made up of nine representatives from the General Assembly and the private sector, soon discovered that the ties between energy policy and transportation—particularly the growing problem of serving

6. The railroad problem was also a prominent concern of newspapers in the state, including the *Des Moines Register*. One issue of concern to Iowans was the proposed Amtrak route through Iowa, which employed the Burlington Northern mainline from Burlington in the southeast part of the state to Council Bluffs in the west, bypassing the state’s largest cities and university towns. A second train, running on the Santa Fe Railroad, skirted the southeast edge of Iowa, crossing the Mississippi River at Fort Madison. See, for example, *Des Moines Register*, 12/22/1970, 1/8/1971, 1/23/1971, 1/29/1971, 4/1/1971, and 4/19/1971.

7. “Iowa Statement on Project Independence,” 9/11/1974, Energy Policy Council, Departmental and Subject Files (Vermeer), 1969–1983, Robert Ray Papers, RG 43 Governor, State Historical Society of Iowa, Des Moines.

rural grain elevators—demanded governmental action to determine the best way to employ energy resources in the state.⁸

Recognizing the importance of railroad transportation in the state for conserving energy, the Energy Policy Council lobbied hard to secure funding to rehabilitate railroad lines. "The railroads are potentially the most energy efficient carrier of goods on long-distance, inland trips. The deterioration of rail service in Iowa, as in other states, shows the price being paid for the nation's failure to have an energy-related transportation policy."⁹ Discussion among council members centered on rehabilitating branch lines, many of which were in deplorable condition. As a commemorative pamphlet described the situation, "Deferred maintenance, inefficient use of freight cars and the inability of some carriers to cope with the increased shipping brought about as a result of the Russian Grain deal, finally took its toll on Iowa's rail system."¹⁰

In 1974 the Iowa General Assembly created the Rail Assistance Program, to be administered by the Iowa Department of Transportation (IDOT). Program staff identified seven branch lines as candidates for state assistance, including two on the Rock Island: the branch from Indianola to Carlisle and the 120-mile Iowa Falls gateway in northwestern Iowa. Ideally, the railroad company was to perform the rehabilitation work on the line, with expenses shared equally by the state, the railroad, and participating shippers. Railroads would receive interest-free loans from the state and shippers to cover the costs of rehabilitation, with funds to be repaid based on the number of carloads shipped over the branch. The initial appropriation for the Rail Assistance Program was \$3 million, far less than the state spent on its road network. Nonetheless, by 1982 the program had written 29 contracts to upgrade track on 17 branch lines totaling 1,191 miles at a cost of \$79 million.¹¹

8. The nine members of the Energy Policy Council were Harriette Baum, James Fuller, Harriett Lindberg, Orren Olson, Robert Porter, Senator James Gallagher (D-Vail), Senator Calvin Hultman (R-Waterloo), Representative Gregory Cusack (D-Davenport), and Representative Brice Oakley (R-Burlington).

9. "Iowa Statement on Project Independence."

10. "Iowa Rail Assistance Program," folder 9 (DOT, 1982), box 238, Ray Papers.

11. *Ibid.*, 2-3.



Abandoned track, Elmira, Iowa (June 1981). Located 9.4 miles northeast of Iowa City, Elmira was a busy junction – but never a town – that boasted a depot, freight house, two water tanks, and up to 60 passenger and freight trains per day in 1898. Fifteen months after the Rock Island closed in March 1980, all that was left were the Burlington–Minneapolis main track, a weedy passing siding, and a switch-stand and station sign well used for target practice by hunters.

THE ROCK ISLAND desperately needed the state funds. By 1974, the railroad had reached an endgame in its long-sought merger with the Union Pacific Railroad (UP). The ICC had approved the merger of the two properties (subject to stringent conditions imposed on both properties that would have, in effect, redrawn the western railroad map), but by the time the decision was announced in November 1974 the UP no longer wanted the Rock Island, whose infrastructure and track had decayed during the decade-long merger proceeding.¹² In anticipation of federal funding being available for reconstructive aid to railroads in the

12. Gregory L. Schneider, *Rock Island Requiem: The Collapse of a Mighty Fine Line* (Lawrence, KS, 2013), documents the merger fiasco and the battle within the railroad industry over the Rock Island.

Midwest as a consequence of the passage of the Regional Rail Reorganization (3R) Act in 1973, the Rock Island applied for a \$100 million loan from the Federal Railroad Administration (FRA), with backing from Iowa state officials, including Governor Ray, who wrote letters petitioning the FRA to support the application. Conceivably to help shepherd the loan application through the federal bureaucracy, in October 1974 the Rock Island board of directors hired John W. Ingram, former head of the FRA, as the railroad's new president. Ingram, a railroad marketing expert, changed the Rock Island's image to a blue-and-white color scheme and bold R trademark, with "The Rock" replacing the old beaver pelt Rock Island emblem and its vermilion-and-yellow color scheme. But neither the change in executives nor the new image led the FRA to approve the loan. Instead, laughably, the railroad received \$9.1 million from the FRA in February 1975, which Ingram told the government would have allowed the railroad to operate through March. With no other recourse, on March 17, 1975, the Rock Island board filed for bankruptcy in Chicago.

The bankruptcy judge, Frank McGarr, appointed a single trustee to lead the railroad through reorganization. At the end of March, McGarr chose his former law partner William Gibbons, who knew nothing about railroads (but a lot about corporate bankruptcy law). Gibbons kept Ingram on as president of the line. Gibbons resisted arguments being raised by rival railroad executives, such as the Chicago and North Western Railway's Larry Provo, that the Rock Island be liquidated; he also spurned the Rock's main bondholder, Henry Crown, who wanted to liquidate the property. Instead, Gibbons, in an effort to save the railroad, sought the assistance of Iowa and other states for track rehabilitation.

Fearing the possible liquidation of the Rock Island in March 1975, Iowa DOT officials Maurice Van Nostrand and John Millhone wrote a memo about the railroad and its impact on Iowa's economy. Summarizing the railroad's significance in the state, they wrote, "The Rock Island has 1,960 miles of track in Iowa, runs 58 trains within the state daily. The railroad's payroll in the state is \$26 million. It pays taxes in Iowa of \$1.5 million annually. There are 1,090 firms employing 39,000 Iowans which rely upon the Rock Island for transportation. There are 125 communities

which rely on the Rock Island as their only source of rail transportation."¹³

Iowa officials seized on the Rock's bankruptcy to petition federal officials about the state's vital interest in keeping the railroad operating. Van Nostrand and Millhone described three possibilities: "1) the continued operation of the Rock Island through the injection of financial assistance; 2) a merger of the Rock Island with the Union Pacific; and 3) dismemberment of the Rock Island with different lines assigned to other railroads." The memo went over the competing arguments, dismissing the first two because of the FRA's refusal to grant a loan to the railroad and the second because of the UP's unwillingness to move forward on the merger. The third alternative was called the Provo alternative, named after Chicago and North Western Railway president Larry Provo, who told a Senate Commerce Committee hearing in Washington on March 10, 1975, that the Rock Island should be liquidated. Van Nostrand and Millhone recommended instead that the state intervene in the bankruptcy case to ascertain whether the railroad could survive and to testify "in the hearings before the ICC to seek the strongest possible protection for Iowa shippers." "At a minimum," they concluded, "we intend to ask that some rail service be provided on all the Rock Island lines for at least two months."¹⁴

The State of Iowa and its Republican governor, Robert Ray, were more than happy to oblige the trustee of the Rock Island, as well as other railroads interested in a public-private partnership to preserve branch lines in the state. Given the need to rehabilitate lines to deliver commodities such as corn and wheat to Gulf of Mexico ports, the Rock's management did not hesitate to pursue rehabilitation efforts with the state and worked in partnership with the state and shippers to do so.

DESPITE the miserable condition of its finances and infrastructure in the mid-1970s, the Rock Island recognized earlier than most railroads the asset it possessed in the grain branches in the

13. Maurice Van Nostrand and John Millhone, "Rock Island Railroad," to Members of Energy Policy Council, n.d. [March 1975], box 204, Ray Papers.

14. *Ibid.*, 3-4.

northwestern corner of the state. Gathering commodities in jumbo hopper cars, an innovation coming to take the place of boxcar loading of grain and corn, led the Rock Island, as early as 1967, to promote unit grain trains (trains dedicated to shipping a single commodity) to haul wheat and corn to the Gulf of Mexico. The Rock Island possessed the longest north-south line of any railroad, stretching from St. Paul, Minnesota, to Kansas City, Missouri (what was called the spine line), and from there to Herington, Kansas, and south to Galveston, Texas.

Rock Island President Jervis Langdon promoted the unit trains in literature the railroad distributed throughout its territory. Titled "You Are Witnessing the Birth of a Market," the pamphlet described how the Rock received a tariff rate allowing it to link midwestern states with Gulf ports for exporting grain to Japan, West Germany, and other destinations. The pamphlet claimed that shipments of wheat "zoomed upward from 8,590,000 bushels in 1967 to 41,600,000 bushels in 1968."¹⁵ That affected the Rock Island's bottom line substantially and contributed to an increase of revenue. (Although the railroad still lost \$4 million in 1968, that was far better than its \$12 million deficit in 1967.) As many as six or seven Rock Island diesel locomotives pulled trains of more than one hundred hopper cars through the Midwest during the autumn harvest season, contributing to a successful strategy to deal with the growing losses in the company's balance sheet.

As Richard Nixon's détente policy contributed to the strengthening of trade relations between the United States and the Soviet Union, Iowa farmers increasingly found export markets for surplus corn and grain. By the late 1970s, however, surpluses became a problem as energy shortages and bad track on the railroads led to declining shipments and increased storage of corn.

Rock Island trustee William Gibbons solicited assistance from across the state of Iowa, traveling to meet with shippers who could help the Rock provide cars to its storage facilities and meeting with state officials to discuss partnerships in the branch line rehabilitation program. Three major branches needed assistance

15. Rock Island Railroad, "You Are Witnessing the Birth of a Market," accession 2068, box 9, Jervis Langdon Papers, Hagley Museum and Library, Wilmington, Delaware.



Abandoned depot and track, Shell Rock, Iowa, on the Rock Island's Burlington–Minneapolis mainline (October 1980). Successor Iowa Northern Railroad restored service to Shell Rock from Nora Springs one year later and reopened the entire line between Cedar Rapids and Manly in 1982. The depot (ca. 1872) is no longer extant.

from the state: the line between the Rock Island's main at Atlantic, Iowa, north to Audubon; the eleven-mile branch from Indianola to Carlisle in Warren County; and a 120-mile stretch of line between Iowa Falls and Superior in the north-central part of the state. All the lines met a cost-benefit threshold determined by the Rail Assistance Program, and each had important shippers who needed rail service and were willing to share the costs with state officials and the railroad. In preliminary discussions the state noted that the Rock's finances were such that it could not expect to contribute anything to the costs of rehabilitation at the moment, with promises of payments coming in the future.

The 13-mile Carlisle-Indianola line served two major shippers with a total tonnage of 2.1 million bushels of grain hauled each year in 600 covered hopper cars. But the new cars, heavier at 200,000 pounds than the old steel frame boxcars, had taken their toll on the track. At places, track speeds were barely 5 miles per hour, with an average of only 10 miles per hour. "The rail on

the branch line was 65 to 75 pound steel that is from 67 to 79 years old." The ties were in bad shape and ballast consisted of cinders and dirt, leading, even at the slow speeds, to frequent derailments. The cost of rehabilitating the branch was estimated to be \$498,000, which was to be paid by the state and shippers. That sum would only return the branch operations to a consistent 10 miles per hour, hardly a style of railroading to stir the purse strings of Wall Street investment bankers.¹⁶

And that was the main point of this innovative public-private partnership. If shippers wanted to keep rail service, they would have to join with the state to ensure its continuation. A group of shippers in western Iowa formed the Audubon-Atlantic Branch Line Improvement Association and loaned the Rock trustee \$100,000 to upgrade service on the branch. The state provided more money with the goal of improving track speeds to 20 miles per hour on the 25-mile branch. Gibbons traveled to Atlantic to receive his check and to inaugurate the new service.¹⁷ Rock executives set a goal of moving 1,000 carloads of grain annually over the branch by 1976, but that goal was never achieved. Rock Island traffic manager Richard Lane reported in 1977 that the railroad had moved only 327 cars for the year, "almost exactly the same number as we moved in 1975." With close to \$750,000 spent on the upgrades to the line, the results were unimpressive to say the least.¹⁸

"THANKS in large part to help from the State of Iowa and from Iowa shippers, the Rock Island seems to be making a go of it." So read a wildly optimistic editorial in the *Des Moines Register* focused on "the apparent revival of the Rock Island."¹⁹ Despite decent quarterly reports made by Gibbons and his attorney, Nicholas Manos, at six-month status hearings on the Rock Island bankruptcy, the railroad still hemorrhaged cash, and attorneys

16. Energy Policy Council Railroad Report, August 1974, folder 5 (Energy Policy Council), box 173 (Vermeer), Ray Papers.

17. "Working on the Railroad," *Des Moines Register*, 10/14/1975, clipping file, Iowa State Department of Transportation Library (hereafter cited as IDOT), Ames.

18. Schneider, *Rock Island Requiem*, 188.

19. "Rock Island Revival," *Des Moines Register*, 10/17/1977, clipping file, IDOT.

for Rock Island bondholder Henry Crown still urged the Rock's liquidation.

So did rival railroads, most acutely the Chicago and North Western (CNW) and its president, Larry Provo. Provo took a dim view of the entire Iowa effort to rehabilitate branch lines. To the initial state proposal to upgrade a branch at Roland, near the main line at Nevada, Iowa, for \$700,000, Provo responded, "Surely, if this line were not there we do not believe that anyone would seriously consider making an investment to construct the line to-day." Provo argued that there were not enough cars shipped to justify the expense and urged instead that the State of Iowa support a petition to abandon the line. Believing that the shipment of grain from small cooperatives had come to an end, Provo sought the abandonment of close to 1,500 miles of branch lines in the state. "The small country grain elevators," he predicted, "will have a different function. They will become intermediate points between farmers and larger grain elevators."²⁰

The CNW had pursued a different strategy, relying less on collecting grain from branch lines and focusing instead on being the main railroad hauling Union Pacific freight eastbound to Chicago. Before the Union Pacific-Rock Island merger had been jettisoned, UP President John Kenefick had begun a relationship with Provo, culminating in having UP trains running over CNW tracks from Fremont, Nebraska, to Chicago. The CNW had always been the UP's biggest exchange partner for freight in the Omaha area (an issue that complicated the UP's efforts to merge with the Rock Island, as CNW chairman Ben Heineman intervened against the merger and got what he wanted—a prolonged fight within the ICC). But now, with the Rock Island in disrepair and lacking the financial capital to rebuild its main lines, Kenefick renewed the connection with the CNW. In 1978, adding fuel to the fire, the Federal Railroad Administration provided a \$100 million loan to the CNW to rehabilitate its Clinton-to-Council Bluffs mainline.²¹ Given that situation, as well as the CNW's

20. Larry Provo to John Millhone, 3/31/1975, folder 7 (Energy Policy Council, 1975), box 173, Ray Papers; Dan Piller, "Railway Chief's Blunt Talk Wins Few Friends in Iowa," *Des Moines Register*, 3/15/1976, clipping file, IDOT.

21. Hofsommer, *Steel Trails to Hawkeyeland*, 237; H. Roger Grant, *The North Western: A History of the Chicago & North Western Railway System* (DeKalb, IL, 1966), 222.

access to the Powder River coal fields in Wyoming and lucrative shipments of coal over the UP to Chicago, Provo remained hostile to Iowa's approach to rehabilitating marginal branch lines.

STATE AID to the Rock Island could not restore profitability to the bankrupt railroad. In the wake of three successive brutal winters in 1977, 1978, and 1979, followed by spring flooding and washouts throughout its operating territory, the railroad was nearing an impasse in the reorganization proceedings. Then, on August 28, 1979, the Brotherhood of Railway and Airline Clerks (BRAC), joined by the United Transportation Union (UTU), struck the railroad. For five weeks, management teams operated a sparse number of trains over less than 20 percent of the property, with the great majority of the Rock Island idled by the strike. In the court bankruptcy proceedings, attorneys and the Rock trustee argued over whether the railroad had sufficient cash to operate. Determining that it did not, on September 24, 1979, the ICC ordered other railroads to provide directed service over the property after BRAC ignored President Jimmy Carter's order to return to work. The crews slowly came back to their jobs, but the railroad they returned to was no longer the Rock Island—rather it was operated by Kansas City Terminal Railroad management using Rock Island crews. Other railroads, like the CNW, the Burlington Northern, and the Milwaukee Road, also operated on Rock Island tracks in Iowa under the directed service order, their losses subsidized by federal taxpayers.²²

On January 25, 1980, citing the failure of the trustee to show how a reorganized core property could restore profitability to the railroad sufficient to pay the substantial debt the railroad now owed creditors (over \$400 million), Judge Frank McGarr decided that the property should be liquidated, culminating in an order to embargo shipments on the property after March 24 and aiming for a total cessation of operations on the railroad by March 31, 1980. Other lines had been liquidated in the past, but nothing compared to the scale and scope of the Rock Island's 7,000-mile system being liquidated. The Rock Island would be (and remains) the largest liquidation of a railroad in history.

22. Schneider, *Rock Island Requiem*, 227–31.



An original Burlington, Cedar Rapids & Minnesota station, built in 1871 at Greene, Iowa (October 1978). With the depot threatened by demolition in 1987, the town raised the money necessary to move it to a new site near the Greene Historical Museum.

IOWANS were deeply concerned about the Rock Island's failure, especially about how it would affect the state's economy and railroad service in the state.²³ As a potential long-term solution, in 1980 the state legislature created the Iowa Railway Finance Authority (IRFA) to provide for the financing of essential railroad lines and their rehabilitation under a grant program established by the legislature. The Ray administration and the legislature continued to seek innovative ways to keep rail lines in service in difficult times for the industry.²⁴

For the short term, Iowa policymakers sought continued operation under extended ICC-directed service operations. Other railroads, primarily the CNW, had operated on Rock Island track.

23. The *Des Moines Register* ran banner headlines, akin to REMEMBER THE MAINE, announcing the end of the Rock Island.

24. The IRFA is still in operation; its grant funds continue to provide assistance to Iowa railroads. Its 2008 annual report is available at http://publications.iowa.gov/6892/1/IRFA_Annual_Report_2008.pdf (accessed 12/15/2013).

The CNW operated over the spine line between the Iowa-Minnesota border to the south through Des Moines, paying the Rock Island estate over \$1 million per month to do so. It also operated over the grain branches in the northwest corner of the state. The Burlington Northern Railroad and the Milwaukee Road also operated on the Rock Island's lines. The shutdown of the railroad on March 31, 1980, threatened shippers with a loss of railroad service. After the shutdown, as a way to provide continued rail service to vital shippers, the trustee negotiated rentals of properties to railroads that had operated under directed service.

In the short run, that solved the problem of continued service on Iowa lines. It was no long-term solution, however. If Rock Island trustee Gibbons could not find buyers for the rail properties in the state, then service would end, leaving shippers in the lurch. Governor Ray, IDOT, and the state legislature wanted to assure shippers that rail service would continue even if no potential buyers could be found to operate on former Rock lines.

One of the alternatives that was least popular among IDOT staff was to grant the CNW control over former Rock Island and Milwaukee Road branches. The CNW had strongly opposed the Iowa branch line improvement project, drawing the ire of some state officials and many shippers, who saw its service as poor and feared that it would dominate Iowa's rail network after the Rock Island's demise. IDOT Director Raymond Kassel pointed to a shipper survey produced by the Iowa Railway Finance Authority as evidence that the CNW was ill-equipped to provide effective service over former Rock Island lines. According to Kassel, shippers had complained about "deferred maintenance, track conditions, lack of motive power, failure to pull loaded trains, poor turn-around time for trains, failure to make car payments due to shippers for their equipment, and excessive delays north of Kansas City." Train turn-around time, according to shippers, was taking 15-30 days, compared to 12-15 days when the Kansas City Terminal ran the Rock under directed service.²⁵ Kassel and others in state government favored the sale of many of the former

25. Raymond Kassel to Donald Yaden, U.S. Department of Transportation, 10/3/1980, box 204 (Vermeer), Ray Papers.

Rock Island lines to the Kansas City Southern Railroad, a company without a presence in Iowa, in order to ensure rail competition in the state.

James Wolfe, president and CEO of the CNW, responded harshly to Kassel's proposal. "Your continuing attempts to try to bring in a new carrier into the State of Iowa to replace the now-defunct Rock Island will do nothing but prolong the agonies which your constituency faced in the past, the burden on Iowa of too many unprofitable railroad companies." Wolfe defended the CNW's record, bragging that "the efforts being made by our employees in your State [are] no less than Herculean. On an annualized basis, the employees of the North Western have already moved 20 percent more grain than moved in 1978. By the end of the year [1980], we expect to move over 350 million bushels of grain, exceeding the combined North Western-Rock Island efforts in 1978 by over 30 percent."²⁶ In sum, Wolfe argued for the continued control of former Rock Island lines in the state by the CNW rather than a new carrier.

The man in control of the disposition of Rock Island assets was William Gibbons. Working with a much reduced staff and still directed by Judge Frank McGarr and the U.S. District Court in Chicago, he would negotiate to dispose of lines to other railroads, interested state governments, and shippers. Gibbons proved to be a hard bargainer, seeking to maximize returns on the railroad's assets in order to gain the most capital to reorganize the company.

Delaying the sale of assets was the Rock Island Employee Transition Act, written by Kansas Republican Senator Nancy Kassebaum and signed into law by President Jimmy Carter. It ensured that former Rock Island employees would receive back pay and vacation pay totaling \$75 million paid from the Rock's estate. Judge McGarr placed an injunction on the law — claiming that labor had already been paid for five years when the railroad was in bankruptcy and that the law represented an unfair taking of property from the estate to pay workers for a railroad that no longer operated. The Railway Labor Executives' Association petitioned the Sixth Circuit Court of Appeals to lift the injunction,

26. James Wolfe to Raymond Kassel, 10/17/1980, box 204 (Vermeer), Ray Papers.

but it was upheld in a decision written by Supreme Court Justice John Paul Stephens. After a year of wrangling, the case, *Railway Labor Executives' Association v. Gibbons*, came before the U.S. Supreme Court, which unanimously decided that the Rock Island owed no obligations to workers from its estate as the law violated the U.S. Constitution's uniform standard of bankruptcy clause (in that no other bankrupt railroad was being required to pay labor from the assets of its own estate). With that decision announced in March 1982, the Rock's reorganization hit high gear, and line sales began to materialize.²⁷

THE STATE OF IOWA, like most midwestern states affected by the Rock's liquidation, feared that the trustee was delaying line sales and forcing states to pay too much for track in the hope that the government could find an operator. At a Midwest Governors' Conference held on March 4, 1982, in Oklahoma City, Gibbons defended the prices he was asking for lines in Oklahoma and other states based on the salvage price for the rail and other equipment. He also showed how many sales had been negotiated. There had been only two leases and sales in Iowa (a seven-mile segment to the Cedar Rapids and Iowa City Railroad and a four-mile segment to the Keokuk Junction Railroad).²⁸ In some cases, the process worked out badly for the public interest. The Choctaw Route, linking Memphis, Tennessee, to Tucumcari, New Mexico, for example, was almost entirely abandoned except for small line segments sold to short-line operators. In other cases, such as the sale of the Rock Island's line from Tucumcari, New Mexico, to St. Louis, Missouri, to the Southern Pacific Railroad for \$57 million, the process worked well for reestablishing service on essential lines.

States like Kansas were incensed by the slow process, and U.S. Senator Bob Dole threatened an investigation of Gibbons.²⁹

27. Schneider, *Rock Island Requiem*, 277-80.

28. William Gibbons, remarks to Midwest Governors' Conference, Oklahoma City, 3/4/1982, box 239, Ray Papers.

29. Bob Dole to Frank McGarr, 10/7/1981, and Gibbons's reply, 10/15/1981, in folder 1, box 5, Chicago, Rock Island and Pacific Railroad Papers, Western History Collection, University of Oklahoma Library, Norman, Oklahoma.



Abandoned depot and track, Oskaloosa, Iowa, photographed four months after the Rock Island had shut down (July 1980). The depot, built in 1887–88, was added to the National Register in 1990 and has been restored and reused as a restaurant. The tracks have been removed.

Kansas Governor John Carlin even called for total liquidation if sales continued to be delayed. Ray responded that the State of Iowa was considering purchasing the Rock Island from the trustee. "It would be a tragedy if portions of the Rock Island were liquidated prior to the time when the state can act to save them. . . . I do share your frustration at the slow pace with which the Trustee is moving to dispose of Rock Island property," but "I am reluctant to support a call for immediate liquidation at this time."³⁰

Governor Ray feared that the trustee would hold out for exorbitant prices in Iowa. The Rock Island's main east-west line across the state was dormant, and some feared that it would be abandoned and sold for scrap. To ensure that vital lines were not lost for rail service, the IRFA and IDOT, in cooperation with Ray, proposed purchasing "essential Rock Island trackage." An IDOT report from April 1981 stressed that "a total loss of service on

30. Robert Ray to John Carlin, 7/17/1981, box 239 (Wilson), Ray Papers. In the bankruptcy hearing, the State of Kansas represented all midwestern states as intervener in the case.

essential Rock Island trackage in Iowa could cost Iowa's economy hundreds of millions of dollars per year in additional transportation costs, and additional highway system wear. Thousands of railroad and non-railroad jobs could be lost." "In northwest Iowa alone, the impact of continued rail service . . . exceeds \$15 million annually."

ON THE OTHER HAND, the projected cost of purchasing "core Rock Island" track in the state (about 1,400 miles) was \$65-\$118 million, with track rehabilitation estimated to cost an additional \$97 million. How would such an expense be paid for? IDOT proposed a railroad diesel fuel tax of one cent per gallon, which could raise an estimated \$10-15 million per year. Other proposals included a property tax on railroads and the collection of delinquent taxes (the Rock Island and Milwaukee Road, both in bankruptcy, owed approximately \$4-5 million to state coffers). Other financing could come from the issuance of state bonds, and operators would share start-up costs and qualify for rehabilitation aid from the assessed taxes on the railroads themselves.³¹ The goal was to form a limited partnership that would help maintain and operate essential Rock Island track in the state.

The proposal, which would have been an expensive proposition for Iowa, drew opposition from state legislators, such as State Senator Dick Drake (R-Muscatine), who favored a different approach to the problem. Drake asked 18 questions about the proposal. Much of his concern centered on the idea of a limited partnership and on the accumulation of debt from bonds that would accrue to state taxpayers.

The proposed diesel fuel tax also raised concerns. C. Philip Baumel, a professor of agriculture and transportation expert at Iowa State University, argued that the diesel fuel tax might lead railroads to cut back service as the fuel tax caused their costs to rise. It might also lead to higher truck use on the roads, resulting in higher highway maintenance costs for the state.³²

31. Doug Gross, Memo to Governor Ray, 4/23/1981, with attachment, "State Involvement of Essential Rock Island Trackage," box 33 (Gross), Ray Papers.

32. Doug Gross, Memo to Governor Ray, 5/16/1981, box 33 (Gross), Ray Papers.



Abandoned depot and platforms, West Liberty, Iowa (May 1983). Freight service had resumed on the defunct Rock Island's former east-west main-line through West Liberty when this photo was made, but the depot and platforms remained abandoned and unneeded. Today the depot has been restored as a museum and houses West Liberty's Chamber of Commerce.

Although the plan was opposed by some railroads, such as the CNW, which called the plan "socialistic," other railroads removed their opposition. The Milwaukee Road, which hoped to gain trackage rights over the north-south spine line, dropped its opposition in May 1981. The Burlington Northern also saw the state's plan as a feasible way to handle the disposition of lines. The stumbling block remained the CNW, which intended to purchase the north-south spine line from the Rock estate. Besides worrying about the lack of competition if the CNW should succeed in gaining control of that line, state officials also worried that if the CNW was able to purchase the spine line from the Rock estate, the State of Iowa would be "left with the dog lines—and those lines would probably result in the state being unable to attract general partners and may result in the state being unable to divest itself of the lines in the future."³³

33. Doug Gross, Memo to Governor Ray, 6/8/1981, box 33 (Gross), Ray Papers. The state of Minnesota, which was also concerned about the line being sold to

Ultimately, the Iowa General Assembly passed a modified limited partnership plan (House File 874), which authorized the IRFA "to participate in limited partnerships and create a special railroad facility fund to retire bonds." The diesel fuel tax was kept in the bill, with the IRFA managing the fund and the tax collected, which was estimated to be worth \$1-\$3 million. Claims that the plan was socialistic were challenged by the railroads, which asserted that the state's sole responsibility under the law would be to collect the diesel fuel tax and that the state was not liable for the venture under the limited partnership approach. IDOT was concerned, however, that the scaled-down plan would not be enough to "develop a system of financing which will make it in the private sector's economic self-interest to become involved in providing continued, competitive and improved rail freight service in Iowa." There was also concern that a scaled-down version would only purchase bits and pieces of the former Rock Island and not the entire system, making it more difficult to sell "unconnected segments." That, in turn, would make it difficult to achieve a prosperous, or even viable, rail network.³⁴

The legislature passed the original bill in August 1981, allowing for the excise tax on diesel fuel, with the IRFA to manage the fund for the purposes of "providing for the financing of railway facilities and enhancing the continued operation of railroad facilities." The tax was to go into effect on October 1, 1981, but seven railroads in the state, including the Santa Fe, CNW, Milwaukee Road, Union Pacific, and others, joined by the intervening Iowa Railroad Shippers Company, filed a petition in equity in November 1981 seeking a delay on the collection of the tax. A temporary injunction was granted on December 28, 1981. After the trial court in Polk County upheld the tax, the railroads appealed on three grounds: discrimination against the railroads in violation of Section 11503 of U.S. Code 49; violation of the Supremacy Clause of the U.S. Constitution, whereby surviving railroads were burdened

the CNW, produced a lengthy report on the spine line. Planning Division, Minnesota Department of Transportation, *The Minnesota North/South Rail Corridor: A Study of the Alternatives for Mainline Route and Local Service Needs* (Minneapolis, 1981), available in IDOT, Ames, Iowa.

34. IDOT, "A Discussion of Rail Finance Proposals," 8/11/1981, box 38 (Gross), Ray Papers.

with a tax to pay for the abandoned lines of railroads that no longer operated; and violation of the Commerce Clause of the U.S. Constitution in that the revenue from the tax would not benefit them, but rather potential competitors who took over abandoned lines. In 1983 the Iowa State Supreme Court, in a 5–4 decision sided with the plaintiffs on their charge that the diesel fuel tax violated Section 11503 of U.S. Code 49, in that the railroads were unfairly taxed, unlike other transportation services in the state.³⁵

BY THE TIME the Iowa Supreme Court ruled on the case, the CNW had purchased the spine line from the Rock Island trustee for \$93 million, following a lengthy bidding war between the CNW and the Soo Line Railroad, which wanted to gain access to Kansas City. The state of Iowa took no position on either railroad, only wanting to ensure trackage rights for other railroads no matter who won the bid. In the Chicago District Court, Judge McGarr entertained the competing bids. The CNW initially bid \$76 million for the property. The Soo Line upped the bidding to \$95 million, but, given the lateness of its bid and fears that Soo Line financing would fall through, the sale of the line to the CNW was approved in June 1983 after the CNW increased its offer to \$93 million. (The Soo Line had upped its bid to \$100 million, but attorneys for the ICC and the Justice Department convinced McGarr that the CNW bid was the more legitimate one.)³⁶

One of the last major line sales of former Rock Island property in Iowa was to Heartland Rail Corporation, a Des Moines company that had been formed the previous year as TRAIN and for a while had been negotiating with the trustee to purchase the former Rock Island east–west mainline. The trustee sought \$81 million for the property, which would encompass the section of the main line from Council Bluffs, Iowa, to Bureau Junction, Illinois. (The trustee had leased the main line from Chicago to Bureau Junction to CSX Corporation and had sold the line from Chicago to Joliet, Illinois, to the Regional Transportation Authority, a commuter operator now known as Metra.) The amount

35. *Atchison, Topeka and Santa Fe Railway et al. v. Gerald D. Bair et al.*, Supreme Court of Iowa, 264/69397, from Iowa Tax Research Library at <http://itrl.idr.iowa.gov/mx/hm.asp?id=14CF>, accessed 12/21/2013.

36. Schneider, *Rock Island Requiem*, 285–87.

Gibbons requested was far too high for a line that would need serious upgrading and new signals on its route. Many sections of the line had not seen regular train service since the end of directed service over the Rock Island in 1980. The Iowa Railroad had operated over portions of the line between Council Bluffs and Adair, and later to Bureau Junction, but, with the absence of regular service in central Iowa, the track and property had decayed.

After lengthy negotiations and a loan of \$15 million from the IRFA, Heartland purchased the property for \$31.5 million in February 1984 and began operations over the line a few months later, contracting with Iowa Interstate Railroad Company to do so. Early operations were difficult, and the railroad depended heavily on support from the IRFA for its first decade of operations, but with the ethanol fuel boom and good management, Iowa Interstate began to turn around its fortunes and became a well-respected and profitable operation over the former Rock Island. Other shortlines in the state, such as the Iowa Northern Railroad, also profited on former Rock Island rails as a result of the limited partnership with the IRFA.³⁷

THE STATE OF IOWA had pursued a policy designed to save essential branch line trackage in the state in the mid-1970s. By the late 1980s, many of the branches it had sought to save, including the Rock Island's line from Indianola to Carlisle (now a nature trail) and the line from Atlantic to Audubon (abandoned almost entirely by Iowa Interstate in the early 2000s), had lost online traffic to trucks or had shippers close their doors permanently in the new postindustrial economy. Many more branches continue in operation as a result of the foresight of Iowa public officials and the investments made in rail service in the state, including the key northwest branch lines, which were operated first by the CNW and then by the Union Pacific.

The state's decision to fund the rehabilitation of other key routes in the state, such as the Iowa Interstate and Iowa Northern

37. Schneider, *Rock Island Requiem*, 287–89; William Petroski, "Fledgling Heartland Rail Sets Out to Prove its Critics Wrong," *Des Moines Register*, 11/4/1982; Fred W. Frailey, "The Iowa Interstate Story," *Trains* (June 2011), 31–37.

mainlines, continues to reap benefits for the state and for shippers dependent on reliable rail service. Not every rail line could be saved; abandonments dominated the news in Iowa during the late 1970s and throughout the 1980s. Yet the decisions made by Governor Ray, IDOT policymakers, and state legislators created an innovative and effective public program that saved not only a piece of the Rock but also other vital elements of the railroad network in the Hawkeye state.